

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
THE HELP II PROGRAM
EXECUTIVE SUMMARY**

<p>Applicant: Operation Samahan (“OS”) 2835B Highland Ave National City, CA 91950 San Diego County</p> <p>Project Site: Same as above.</p> <p>Facility Type: Community Clinic-Federally Qualified Health Center Look-Alike</p> <p>Prior HELP II Borrower: Yes. (Current loan balance is \$123,897)</p>	<p>Amount Requested: \$500,000</p> <p>Requested Loan Term: 15 years</p> <p>Date Requested: February 28, 2008</p> <p>Resolution Number: HII-214</p>																				
<p>Background: OS was incorporated in 1973 to promote better health and living conditions. Specifically, OS provides primary care, pediatric care, oral and dental services, social services and an information/education center for youth.</p>																					
<p>Uses of Loan Proceeds: Loan proceeds will be used to expand the clinic’s existing square footage by 2,200 square feet, providing for an increase in the number of medical exam rooms from five (5) to eight (8) and three (3) new dental operatories.</p>																					
<p><u>Financing Structure</u></p> <ul style="list-style-type: none"> • 15-year loan. • 180 equal monthly payments of approximately \$3,453 (yearly payments of about \$41,435). • Corporate gross revenue pledge. • Second lien position (behind existing CHFFA HELP II Loan) on property located 2743 Highland Avenue, National City, CA 91950. • Loan to value ratio not to exceed 95% (estimated combined loan to value ratio is 74%). 																					
<p>Financial Overview: OS appears to exhibit continuing positive net income during the review period. OS’ balance sheet appears sound with approximately \$1 million in total net assets. The proforma debt service coverage ratio for the proposed HELP II loan is a satisfactory 2.19x.</p>																					
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: left;"><u>Sources of Funds</u></th> <th colspan="2" style="text-align: left;"><u>Uses of Funds</u></th> </tr> </thead> <tbody> <tr> <td style="width: 30%;">HELP II Loan</td> <td style="width: 20%; text-align: right;">\$500,000</td> <td style="width: 30%;">Renovation</td> <td style="width: 20%; text-align: right;">\$563,000</td> </tr> <tr> <td>Borrower Funds</td> <td style="text-align: right;">50,000</td> <td>Financing cost</td> <td style="text-align: right;"><u>12,000</u></td> </tr> <tr> <td>Fundraising/Special Events</td> <td style="text-align: right;"><u>25,000</u></td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Total Sources</td> <td style="text-align: right;"><u>\$575,000</u></td> <td style="padding-left: 20px;">Total Uses</td> <td style="text-align: right;"><u>\$575,000</u></td> </tr> </tbody> </table>		<u>Sources of Funds</u>		<u>Uses of Funds</u>		HELP II Loan	\$500,000	Renovation	\$563,000	Borrower Funds	50,000	Financing cost	<u>12,000</u>	Fundraising/Special Events	<u>25,000</u>			Total Sources	<u>\$575,000</u>	Total Uses	<u>\$575,000</u>
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<p>Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.</p>																					
<p>Staff Recommendation: Staff recommends approval of a HELP II loan for Operation Samahan, Inc. in an amount not to exceed \$500,000, for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority.</p>																					

**STAFF SUMMARY AND RECOMMENDATION
THE HELP II PROGRAM**

I. PURPOSE OF FINANCING

Renovation **\$ 563,000**

The proposed loan will enable OS to expand its existing 6,000 square foot facility by an additional 2,200 square feet. This expansion will increase the number of medical exam rooms from five to eight and will include three new dental operatories. OS is also seeking to renovate the building to make more efficient use of existing space. With this expansion, OS estimates it will increase total patient volume by approximately 29%. OS intends to begin construction March 2008 and expects to complete the project by July 1, 2008.

The HELP II loan will be secured by OS real property located at 2743 Highland Avenue (the clinic at 2835B Highland Avenue has an existing first lien from another lender), which has an estimated current fair market value of \$1,016,000. This property is already secured by the existing HELP II loan (current loan balance \$123,897), in the first lien position, thus the proposed HELP II loan will be in the second lien position. This property also has an existing second lien in the amount of \$122,500, related to a previous grant received from the Community Development Commission of the City of National City (CDC). CDC has agreed to subordinate their lien into the third position. The proposed HELP II loan combined with the existing HELP II loan will lead to a CHFFA total loan to value ratio of 61%* and a total loan to value ratio of 74%.**

OS has applied for an HRSA Grant in the amount of \$150,000 and should have an award determination in March. In addition, OS is applying for other funding through several grant programs in case their HRSA grant application is not approved. These funds will be used to purchase equipment and furnishings for the facility once renovations are complete.

* $\$500,000 + \$123,897 / \$1,016,000 = 61\%$
 ** $\$500,000 + \$123,897 + \$122,500 / \$1,016,000 = 74\%$

Financing Costs **12,000**

Authority Closing Fee	\$6,250	
Title & Escrow	<u>5,750</u>	

Total Uses of Funds **\$ 575,000**

II. FINANCIAL STATEMENTS AND ANALYSIS

Operation Samahan Statement of Activities

(Unrestricted)

	For the Year Ended June 30,		
	2007	2006	2005
Revenue & Support			
Revenues:			
Patient Revenue/ Patient Medical Fees	\$ 2,435,297	\$ 2,227,266	\$ 2,393,194
Grants & Contracts	672,921	935,072	1,072,531
Other Income	55,112	49,120	23,676
Rental revenue	31,740	27,720	27,720
Interest revenue	19	255	4,671
Total Revenue	<u>3,195,089</u>	<u>3,239,433</u>	<u>3,521,792</u>
Support			
Contributions	29,011	16,854	5,768
Fund Raising	12,619	200	1,245
Total Support	<u>41,630</u>	<u>17,054</u>	<u>7,013</u>
Net assets released from restrictions:	<u>97,649</u>	<u>231,527</u>	<u>(246,590)</u>
Total Revenue & Support	<u>3,334,368</u>	<u>3,488,014</u>	<u>3,282,215</u>
Expenses			
Salary, Wages & Benefits	2,221,236	2,443,502	2,339,010
Consulting	178,251	204,685	181,215
Rent	144,025	157,604	163,410
Clinic Supplies	119,321	105,938	105,173
Insurance	100,135	121,052	79,456
Depreciation	58,350	52,991	43,687
Interest	39,913	48,650	47,377
Utilities	39,494	64,761	59,731
Taxes, Licenses & Fees	37,234	41,086	19,190
Outside Lab Services	33,630	57,094	85,452
Outside Services Other	29,747	1,169	-
Equipment Lease	27,488	35,746	39,415
Equipment Costs	24,491	17,963	24,622
Janitorial	21,107	17,666	17,833
Membership Fees	15,539	15,563	20,359
Office Supplies	14,319	32,722	20,057
Repairs and Maintenance	12,858	720	5,900
Miscellaneous Expenses	12,347	-	3,762
Postage & Printing	12,185	12,406	11,473
Travel, Meetings & Conventions	10,800	6,501	4,500
Other Program Expenses	9,950	50,482	13,898
Employee Developments	4,962	4,825	9,336
Advertising & Public Relations	2,789	2,852	16,747
Total Expenses	<u>3,170,171</u>	<u>3,495,978</u>	<u>3,311,603</u>
Changes in unrestricted net assets	164,197	(7,964)	(29,388)
Unrestricted Net Assets Beginning of Year	<u>817,459</u>	<u>825,423</u>	<u>892,038</u>
Unrestricted Net Assets End of Year	<u>\$ 984,156</u>	<u>\$ 817,459</u>	<u>\$ 825,423</u>

**Operation Samahan
Statement of Financial Position**

	As of June 30,		
	2007	2006	2005
Assets:			
Current assets:			
Cash	\$ 2,165*	\$ 28,222	\$ 264,735
Contract Receivables	543,808	412,875	611,524
Other Receivables	32,809	32,650	10,686
Prepaid expenses	11,372	38,019	12,174
Deposits	23,640	23,640	23,640
Total current assets:	<u>611,629</u>	<u>535,406</u>	<u>922,759</u>
Land, building and equipment, net	<u>1,240,790</u>	<u>1,274,669</u>	<u>1,118,623</u>
Total Assets	<u>\$ 1,852,419</u>	<u>\$ 1,810,075</u>	<u>\$ 2,041,382</u>
Liabilities and Net Assets:			
Accounts payable	\$ 184,644	\$ 173,824	\$ 187,218
Accrued Vacation	110,623	108,105	46,660
Mortgage Loan Payable, Current Portion	40,372	38,330	36,423
Current Liabilities	<u>335,639</u>	<u>320,259</u>	<u>270,301</u>
Mortgage Loan Payable, less current portion	<u>522,207</u>	<u>559,626</u>	<u>601,400</u>
Total Liabilities	<u>857,846</u>	<u>879,885</u>	<u>871,701</u>
Net assets:			
Unrestricted	984,156	817,459	825,423
Temporarily restricted	12,582	112,731	344,258
Total net assets	<u>996,738</u>	<u>930,190</u>	<u>1,169,681</u>
Total liabilities and net assets	<u>\$ 1,854,584</u>	<u>\$ 1,810,075</u>	<u>\$ 2,041,382</u>

Financial Ratios:

	Proforma (a)			
	FYE June, 2007			
Debt service coverage (x)	2.19	3.35	3.51	0.76
Debt/Unrestricted Net Assets (x)	1.08	0.57	0.73	0.77
Margin (%)		4.92	(0.23)	(0.89)
Current Ratio (x)		1.83	1.67	3.41

*Currently at \$64,800 as of 2/20/2008.

(a) Recalculates 2007 audited results to include the impact of this proposed financing.

Financial Discussion – Statement of Activities (Income Statement)

OS' income statement appears to demonstrate recent improvement in operations supported by a reported increase in demand for services.

OS has recently experienced an increase in patient revenues, which OS reports is attributed to an increase in patient visits. OS reports its revenues are derived primarily from two sources: patient revenue (75%) and grants and contracts (20%). Though grants and contracts decreased in FY 2007, OS has reported increases in fundraising (support) revenue for the last three fiscal years. Between 2005 and 2007, OS' income statement appears to reflect consistent revenues and an effort to keep operational expenses to a minimum. With OS' proposed expansion of nearly 2,200 square feet, OS expects its annual revenue to increase by 48%.

In FY 2007, OS increased patient revenue by nearly 10% and also increased unrestricted net assets by an impressive \$164,000. OS contends these operational improvements resulted from OS' recent designation as a Federally Funded Qualified Health Center (FQHC) Look-Alike (which provides higher reimbursement rates.) In addition, OS also reported a decline in salaries nearly 10%, which is attributed to careful monitoring of clinic hours and overtime.

Particular Facts to Note:

- In FY 2006, OS experienced a downturn in patient visits due to reduced clinic hours. OS chose to reduce its clinic hours in response to budgetary challenges arising from lower Medi-Cal reimbursement rates and declines in grant and contract revenues. Despite reduced clinic hours, OS still managed to operate at a nearly break-even level (hence a decrease in unrestricted net assets of \$7,000).
- In FY 2005, OS explains that it operated with a loss due to: (1) state budget cuts that resulted in a decline in Med-Cal reimbursement rates; (2) a reduction in EAPC allocation and; (3) a decrease in grants and contracts.

Financial Discussion – Statement of Financial Position (Balance Sheet)

OS' balance sheet appears to be solid with approximately \$1 million in total net assets.

In FY 2007, OS reported total unrestricted net assets of \$984,000, a 20% increase over FY 2006, which, if needed, can provide financial support for future operations. OS proforma debt to unrestricted net assets is 1.08x, within the acceptable range. The existing debt service coverage ratio also appears acceptable at 3.35x. The proforma debt service ratio coverage remains solid at 2.19x, indicating that OS should be able to make loan repayments for the proposed HELP II loan.

Particular Facts to Note Continued:

- OS' cash has decreased substantially from \$264,000 in 2005 to \$2,000 in 2007 due to budget cuts from state, public and private funds. OS utilized cash reserves, as well as a \$150,000 credit line from Wells Fargo to fund the clinic's financial obligations, all of which led to a decrease of cash on hand. (The current balance on the line of credit, as of February 20, 2008, is approximately \$57,200.) Although, OS has experienced a decrease in cash, they have maintained a strong balance sheet for the last three fiscal years. In addition, OS has increased its cash position to \$64,800 as of February 20, 2008.

III. UTILIZATION STATISTICS

**Clients Served/ (Patient Visits)
Fiscal Year Ended June 30**

	2005	2006	2007
Totals	13,001 / (31,250)	12,203 / (28,230)	15,140 / (32,850)

IV. ORGANIZATION

Background and Licensing

In 1973, OS began operations as the first Filipino community clinic in the area. Licensed by the State Department of Health Services as a Community Clinic, OS now operates three medical clinics (two in National City and in one Mira Mesa). A majority of the patients and clients are below 200% of the Federal poverty level.

In addition to health care programs, OS offers: (1) assistance in obtaining medical coverage under Medi-Cal, Medicare and San Diego County Services; (2) translation and advocacy services and; (3) domestic violence screening and referral. Other services include immigration consultation, legal advice, and referrals.

V. OUTSTANDING DEBT

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding* As of June 30, 2007</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
Existing Long-Term Debt:			
CHFFA HELP II, 2003	\$250,000	\$125,311	\$125,311
Private Loan, 2001	492,000	437,268	437,268
Proposed			
CHFFA HELP II, 2008		N/A	500,000
TOTAL DEBT		<u>\$562,579</u>	<u>\$1,062,579</u>

*Includes current portion of long-term debt.

VI. DUE DILIGENCE:

Due diligence has been completed with regard to the following items:

- Savings Pass Through: OS has provided a description of its savings pass through in **Exhibit A.**
- Community Service Requirement: OS has certified that the services of the Facility will be made available to all persons residing or employed in the area served in **Exhibit B.**
- Religious Due Diligence
- Legal Review

VII. STAFF RECOMMENDATION:

Staff recommends the Authority approval of a HELP II loan for Operation Samahan, Inc. in an amount not to exceed \$500,000, for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority.